



IMPACT OF COVID-19 PANDEMIC ON INDIAN MSME SECTOR

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ABSTRACT

The world is battling with modern horrors like the COVID-19, which has left the entire world befuddled and in the lurch as to how one virus has brought the entire world to a standstill. This devastating virus which is declared by the WHO as the pandemic has taken over almost 195 countries in its grip.

This virus is mounting a very serious threat to the global economy as well, which is already in grave peril. There is no doubt that the Indian economy, which is already sputtering, is growing at one of the lowest rates in the last six years. And now, a new set of economic challenges unleashed by this virus is leaving many sectors in tatters.

It is a well-known fact that in the global supply chain, China plays a very pivotal role for India and its MSME sector as well, this sector is largely dependent on China for its raw material. For example, Indian drug makers source almost 70 per cent of their ingredients from Chinese factories and Chinese goods worth \$30 billion. Thus complete lockdown of China and partial lockdown of India has led to various issues ranging from shrinkage of exports, cessation of production, non-availability of manpower, the uncertainty of consumption, and liquidity squeeze in the market as well.

KEY WORDS: COVID-19, MSMEs, LOCK DOWN, PANDEMIC, CORONA VIRUS, INDIAN ECONOMY.

INTRODUCTION:

Corona virus disease (COVID-19) is an infectious disease, caused by a newly discovered corona virus. Corona virus are a group of related RNA viruses that cause diseases in animal and birds.

The corona virus outbreak came to light on Dec 31, 2019 when CHINA informed the WHO of a cluster of cases of pneumonia of an unknown cause in WUHAN city in Hubei Province. Subsequently the disease spread to more Provinces in China, and to rest of the world. The WHO has declared it a Pandemic. The virus has been named SARS-COV-2 and the disease is called COVID-19. WHO is working closely with global experts, governments and other health organizations to provide advice to the countries about precautionary and preventive measures. We can't ignore the fact that the outbreak of COVID-19 in China is expected to have a significant impact on the economy globally including economic slowdown, trade, supply chain disruption, commodities and logistics.

According to the Confederation of All India Traders (CAIT) which represents 70 million traders in India and the majority of them are MSME. The trade impact for India is estimated to be around Rs 380 lakh and the chemical sector is expected to take a big hit of Rs 12 crore 90 lakh. Micro, small and medium enterprise is the sector which was already reeling under huge distress firstly because of demonetisation, then because of poorly implemented GST followed by the prolonged economic slowdown and finally, the biggest of all - the COVID-19 which is going to aggravate the crisis in this specific sector further.

As the COVID-19 pandemic in India has already entered into the second stage and as many experts are saying that we will be entering into the third stage very soon that involves the spread of this pandemic from cluster to community. After the country is put under lockdown till June 13 one thing is pretty sure that the MSME will be taking a maximum hit and that the distressed sector will render many people jobless and will lead to the closure of thousands of industrial outlets forever.

According to a study commissioned by All India Manufacturers Organisation (AIMO), India is currently home to over 75 million MSMEs and close to 25 per cent of these firms will face closure, if the lockdown imposed due to the COVID-19 goes beyond four weeks while a whopping 43 per cent will shut shop if panic extends beyond eight weeks. MSME forms the backbone of the Indian economy and is one of the most crucial segments that let the economy grow by leap and bounds. The sector which provides employment to over 114 million people and contributes to more than 30 per cent of the GDP is going through one of the tough phases, thus actions are required immediately.

Definition of INDIAN MSMEs:

Formally, MSMEs are defined in terms of investment in plant and machinery (Chart 1). But this criterion for the definition was long criticised because credible and precise details of investments were not easily available by authorities.

That is why in February 2018, the Union Cabinet decided to change the criterion

to "annual turnover", which was more in line with the imposition of GST. According to the proposed definition, which is yet to be formally accepted, a micro enterprise will be one with an annual turnover less than Rs 5 crore; a small enterprise with turnover between Rs 5 crore and Rs 75 crore; and a medium enterprise with turnover less than Rs 250 crore.

WHAT IT MEANS, HOW MANY, AND WHERE THEY STAND

CHART 1: DEFINITION OF MSME

Classification	Manufacturing Enterprise*	Service Enterprise*
Micro	Up to Rs 25 lakh	Up to Rs 10 lakh
Small	Above Rs 25 lakh to Rs 5 cr	Above Rs 10 lakh to Rs 2 crore
Medium	Above Rs 5 cr to Rs 10 cr	Above Rs 2 cr to Rs 5 cr

*Manufacturing Enterprise: investment in plant & machinery;
Service Enterprise: investment in equipment

CHART 2: ESTIMATED NUMBER OF MSMEs (IN LAKH)

Activity category	Rural	Urban	Total	Share
Manufacturing	114.14	82.50	196.65	31%
Trade	108.71	121.64	230.35	36%
Other services	102.00	104.85	206.85	33%
Electricity*	0.03	0.01	0.03	—
All	324.88	309.00	633.88	100%

*Non-captive electricity generation and transmission

CHART 3: ESTIMATED EMPLOYMENT IN MSME SECTOR (IN LAKH)

Broad activity category	Rural	Urban	Total	Share
Manufacturing	186.56	173.86	360.41	32%
Trade	160.64	226.54	387.18	35%
Other services	150.53	211.69	362.22	33%
Electricity*	0.06	0.02	0.07	—
All	497.78	612.10	1109.89	100%

*Non-captive electricity generation and transmission

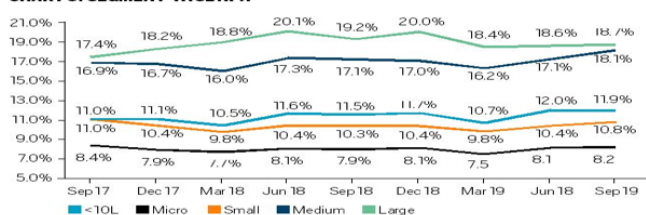
CHART 4: DISTRIBUTION OF ENTERPRISES CATEGORY-WISE (IN LAKH)

Sector	Micro	Small	Medium	Total	Share
Rural	324.09	0.78	0.01	324.88	51%
Urban	396.43	2.53	0.04	399.00	49%
All	630.52	3.31	0.05	633.88	100%

CHART 5: POTENTIALLY ADDRESSABLE CREDIT GAP IN THE MSME SECTOR (IN RUPEES TRILLION)



CHART 6: SEGMENT-WISE NPA



How many MSMEs does India have, who owns them, and where are they situated:

According to the latest available (2018-19) Annual Report of Department of MSMEs, there are 6.34 crore MSMEs in the country (Chart 2). Around 51 per cent of these are situated in rural India. Together, they employ a little over 11 crore people (Chart 3) but 55 per cent of the employment happens in the urban MSMEs.

These numbers suggest that, on average, less than two people are employed per MSME. At one level that gives a picture of how small these really are. But a breakup of all MSMEs into micro, small and medium categories is even more revealing.

As Chart 4 shows, 99.5 per cent of all MSMEs fall in the micro category. While micro enterprises are equally distributed over rural and urban India, small and medium ones are predominantly in urban India. In other words, micro enterprises essentially refer to a single man or a woman working on their own from their home.

The medium and small enterprises - that is, the remaining 0.5% of all MSMEs - employ the remaining 5 crore-odd employees.

The distribution of enterprise by caste further completes the picture. About 66 per cent of all MSMEs are owned by people belonging to the Scheduled Castes (12.5%), the Scheduled Tribes (4.1%) and Other Backward Classes (49.7%). The gender ratio among employees is largely consistent across the board at roughly 80% male and 20% female.

In terms of geographical distribution, seven Indian states alone account for 50 per cent of all MSMEs. These are Uttar Pradesh (14%), West Bengal (14%), Tamil Nadu (8%), Maharashtra (8%), Karnataka (6%), Bihar (5%) and Andhra Pradesh (5%).

This breakup provides a sense of where the pain of the MSME crisis would be felt the most.

What kind of problems do MSMEs in India face:

Given the shape and form of MSMEs, it is not hard to envisage the kind of problems they would face.

To begin with, most of them are not registered anywhere. A big reason for this is that they are just too small. Even GST has its threshold and most micro enterprises do not qualify. This apparent invisibility tends to work for enterprises as well as against them. Being out of the formal network, they do not have to maintain accounts, pay taxes or adhere to regulatory norms etc. This brings down their costs. But, as it is clear in a time of crisis, it also constrains a government's ability to help them. For instance, in some of developed countries, the government has tried to directly provide wage subsidy and extra credit to smaller firms but that could happen because even smaller firms were being mapped.

Related to this is possibly the single-biggest hurdle facing the MSMEs - lack of financing. According to a 2018 report by the International Finance Corporation (part of the World Bank), the formal banking system supplies less than one-third (or about Rs 11 lakh crore) of the credit MSME credit need that it can potentially fund (Chart 5).

In other words, most of the MSME funding comes from informal sources and this fact is crucial because it explains why the Reserve Bank of India's efforts to push more liquidity towards the MSMEs have had a limited impact.

A key reason why banks dither from extending loans to MSMEs is the high ratio of bad loans (Chart 6); data show higher slippage for relatively bigger enterprises.

The other big issue plaguing the sector is the delays in payments to MSMEs - be it from their buyers (which includes the government also) or things like GST refunds etc.

IMPACT ON INDIAN MSME SECTOR:

The Covid-19 pandemic has left its impact on all sectors of the economy but nowhere is the hurt as much as the Medium, Small and Micro Enterprises

(MSMEs) of India. All anecdotal evidence available, such as the hundreds of thousands of stranded migrant workers across the country, suggests that MSMEs have been the worst casualty of Covid-19 induced lockdown. It has also been reported that just like the first relief package, called the PM Garib Kalyan Yojana, which was announced by the government on March 26, the second package, too, would primarily focus on the MSME sector.

A closer look at the anatomy of the MSME sector explains why MSMEs are so vulnerable to economic stress.

How has Covid-19 made things worse?

MSMEs were already struggling - in terms of declining revenues and capacity utilisation - in the lead-up to the Covid-19 crisis. The total lockdown has raised a question mark on the existence of many primarily because these are not firms that have too much cash to wait out the crisis. That explains the job losses. According to a recent survey "small and medium" firms in manufacturing, only 7% said they will be able to survive for more than three months with their cash in hand if their business remains closed. A big hurdle to restarting now is the lack of labour availability.

The MSME sector, the majority of which relies on day-to-day business to stay afloat, continues to be the most vulnerable owing to the lockdown and a decrease in demand. According to a survey covering 5000 MSMEs, conducted by the All India Manufacturers' Organisation (AIMO) has revealed that 71% of the businesses weren't able to pay salaries in March. The survey further revealed that a whopping 43% would shut shop if panic extends beyond eight weeks. Considering the stoppage of economic activity over the past few weeks, it is unfathomable that a vast number of MSMEs will be choked, perhaps to the point of permanent closure.

How Can The MSME Sector Survive COVID-19?

The MSME sector that forms the backbone of the Indian economy was hit due to the blows of demonetisation and GST implementation. However, as the situation began to show signs of improvement, the pandemic outbreak ushered in a new set of challenges, leaving many companies in the lurch due to the pandemic outbreak and the consequent lockdown. Additionally, factors like credit deficit, shortage of working capital, and a decrease in demand for non-essential goods paints a grim picture.

Despite the fact that the government is taking countermeasures to combat the loss incurred due to the pandemic, MSMEs are struggling for stability as sales and revenue remain at a halt. As per the CII CEOs snap poll on the impact of COVID-19 on the economy and industry, 54% of company heads predict job losses in their respective sectors post the lockdown whereas 45% foresee 15-30% layoffs. Additionally, 33% of the firms are expecting a fall in revenue for FY21. For instance, auto manufacturers like Maruti Suzuki said the production for April was 'zero,' whereas, during February, the company produced 1,40,933 cars. This is the plight across the manufacturing industries, including textiles, chemicals, among others.

What makes the situation worse is that with a decrease in demand, and no possible rebound in the future, it may get increasingly challenging for most of the businesses to adhere to their obligations. According to TransUnion CIBIL, MSME loans worth Rs 2.3 lakh crore are at a higher risk of becoming non-performing. Further, the need for working capital will increase as payment cycles are likely to be extended, generating cashflow issues. This situation is expected to prevail, even as the government relaxes restrictions.

Relief measures taken by the Government for MSMEs:

Indian MSMEs will play a significant role to become Self Reliant India. To become "from local to global" of MSMEs are major emphasis of India. Indian MSMEs will be badly affected by Covid-19 pandemic. It plays vital role in employment generation in India. To strong the foundation of Indian MSMEs and to achieve the dream of Self Reliant India, Government of India has taken different type of measures.

Credit and Finance for MSMEs: Out of the 15 relief measures announced by the Finance Minister Nirmal Sitharaman under the mega Rs 20 lakh crore stimulus package for the Covid-battered economy, six aimed at bringing lockdown-hit India's vast MSME sector back to life. MSMEs across sectors and industries have been clamouring for a financial package from the government ever since the lockdown came into force on March 25. Sitharaman sharing the details of the humongous Covid-19 financial package - roughly 10 per cent of the Indian GDP - announced measures to boost liquidity in MSMEs, help them take benefit of the government schemes, enable them to compete with foreign companies, and strengthen their network.

Rs 3 lakh crore collateral-free loans:

Banks and NBFCs will offer up to 20 per cent of entire outstanding credit as on February 29, 2020, to MSMEs. Units with upto Rs 25 crore outstanding credit and Rs 100 crore turnover are eligible for taking these loans that will have four-year tenor with a moratorium of 12 months on principal payment. The scheme can be availed till October 31, 2020. The government will provide complete credit guarantee cover to lenders on principal and interest amount. Rs 20,000 crore subordinate debt

MSMEs declared NPAs or those stressed will be eligible for equity support as the government will facilitate the provision of Rs 20,000 crore as subordinate debt. The government will also provide Rs 4,000 crore to CGTMSE that will offer partial credit guarantee support to banks for lending to MSMEs.

Rs 50,000 crore equity infusion:

The government will infuse Rs 50,000 in equity in MSMEs through a Fund of Funds that will be operated through a Mother fund and a few daughter fund. The Fund of Funds will be set-up with a corpus of Rs 10,000 crore to give equity-based funding to MSMEs having growth potential and viability. It will also urge MSMEs to list on stock exchanges.

Global tenders disallowed:

Addressing MSMEs' issue of unfair competition from foreign companies in government procurement tenders due to the size and strength differ, the government said it will not allow global tenders in such schemes upto Rs 200 crore. "Necessary amendments of General Financial Rules will be effected," according to the government document detailing the 15 relief schemes. "Through the recently revised measures, the government has instilled a lot of faith in India's backbone – the MSME ecosystem."

Clearing MSME Dues:

Nirmala Sitharaman said that the government and central public sector enterprises will release all pending MSME payments in 45 days. The minister also said that fintech enterprises will be used to boost transaction-based lending using the data by the e-marketplace. This e-market for developing linkages for MSMEs will be promoted to replace trade fairs and exhibitions.

Changing MSME definition:

Low threshold limit in MSME definition have created a fear and they did not expand its business and they think that if we expand our business, we shall be out of the scope to avail benefits of MSME. After a long waiting Government has revised MSME definition.

Existing MSME classification:

Criteria: Investment in plant & machinery or equipment

Classification	Micro	Small	Medium
Manufacturing enterprises	Investment <25 lakh	Investment <5 crore	Investment <10 crore
Service enterprises	Investment <10 lakh	Investment <2 crore	Investment <5 crore

Revised MSME classification:

Composite Criteria: Investment and Annual Turnover

Classification	Micro	Small	Medium
Manufacturing & service enterprises	Investment <1 crore and turnover < 5 crore	Investment <10 crore and turnover < 50 crore	Investment <20 crore and turnover < 100 crore

The Reserve Bank of India declared several monetary policy measures to curb the impact of the corona virus pandemic:

- Declared a considerable cut in the policy repo rate by 75 basis points to 4.4% - lowest policy rate in this century
- Announced to inject around 3.74 lakh crore liquidity into the system
- Allowed a 3-month moratorium on payment of instalments on the existing term loans RBI has also opened another Rs 50,000 crore in refinancing window for Nabard, Sidbi and NHB under which:
- Banks will require to make these investments within one month from receiving the funds from the RBI
- Reduced the liquidity coverage ratio to 80% from 100% previously, and provided a special financial facility of Rs 50,000 crore to All India Financial Institutions (AIFIs) at the repo rate

Although these announcements are expected to assist the MSMEs in tackling economic stress, they may not prove to be remunerative immediately as the demand is likely to remain low due to the prevailing lockdown restrictions and low business emotions.

Other measures to help the MSME sector comprises emergency credit lines announced by Public Sector Banks, a low-interest loan rate of 5% within 48 hours declared by SIDBI, and business continuity measures by the RBI.

The Minister for MSME and Road Transport and Highways, Nitin Gadkari said that the government is working on an agro MSME policy that will focus on entrepreneurship development in rural, tribal, agricultural, and forest areas for manu-

facturing products using local raw material. While the measures are taken a focus on easing the short-term liquidity concerns, the stimulus package, soon to be announced by the government, needs to be far-reaching for the MSME sector to tide over the impacts of the pandemic.

The government needs to arrive at a decisive plan to revive the MSME sector. However, it may not be an easy task as it will take time for the situation to get anywhere near normalcy. Working capital will continue to be the mainframe of the sector, and any shortage at it will challenge its survival. Having said that, the allocation of a contingency fund for the MSME sector is the need of the hour, whereas, businesses need to rework on their budgetary requirements and restructure accordingly to keep functioning.

How MSMEs can survive during post epidemic:

The business environment during post pandemic will be totally different from today's business environment specially MSMEs. The following changes we can expect in field of MSMEs sector.

- MSMEs should give more emphasis on innovation. Of course innovation in MSMEs business is amazed but innovation will be indispensable for MSMEs after this epidemic, other they cannot exist.
- Digital practice: India has 63 million MSMEs but only 32% of them are digitally engaged and 68% are too far to adopt digital practices. The untapped portion of MSMEs must change their strategy and digitize their business processes to survive in long run. To adopt digital practice is really difficult for some MSMEs but without adopting digital practice it will be very difficult to survive during post epidemic as people will continue to avoid meeting and social gathering.
- High credit support and available of working capital.
- Adopting more sustainability practice which leads to environment conscious
- Cross train staff practice will be helpful to some extent in the business premises, so that they will be able to perform variety of roles in business.
- Giving more emphasis on working capital management. Quick collection from receivable will be helpful to meet wage and salary expenses

The post-pandemic world will experience a dearth of capital and will require financial institutions to lend a helping hand to the MSME sector. The government will need to enable a comprehensive ecosystem for the MSMEs to get back on track and start conducting business.

CONCLUSION:

COVID-19 has taken the epidemic in India. Considering the current situation, the need of the hour is the allocation of a robust fiscal package to revive the confidence of the MSME sector and thereby initiate economic recovery. It is also important that the financial relief not just provide temporary relief by infusing short-term liquidity, rather address medium to long term requirements. It is critical for the government to introduce a policy framework, keeping various scenarios in mind, and foster a holistic approach toward building the MSMEs resilience to the pandemic outbreak, as once the pandemic fades out, the nation will require its growth engine to start building the economy.

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